



NEWS RELEASE

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No immediate competition issues for Jersey's grocery market

The Jersey Competition Regulatory Authority (the Authority) has published a draft report on the market for groceries in Jersey. This suggests that competition is working, although other factors are contributing to higher prices for consumers.

Competition in the Jersey grocery market appears to be working. Grocery suppliers are not making excessive profits, and comprehensive survey data indicates that Jersey customers are well served by the market.

Inflation has played a part in increasing the costs of groceries, and the draft report shows that pressure on prices in Jersey has been no different from other jurisdictions, including the UK and Guernsey. It is these factors that are pushing up prices - rising input costs such as transport, energy, and the price of raw ingredients - rather than higher retailer margins or lack of competition in the marketplace.

However, higher on-Island operating costs and the lack of low-price suppliers, do mean that Jersey consumers are paying more for their groceries, for example the cost of a shopping basket at the same retailer is c.12% lower in the UK than in Jersey. And this reflects higher costs (primarily freight and labour) and tax differences, rather than competition issues.

Within this context, continuing to find ways to further support the competitive process and consumers remains a priority and the Authority is setting out options for the recommendations in the final report. These include:

- Improving price transparency with investment in Jersey Consumer Council's price comparison service, to encourage greater price based competition.
- Maintain a competitive and dynamic groceries market, by minimising entry barriers and promoting Jersey as a testbed for innovation; and
- Follow up recommendations from the 2021 market study into Freight Logistics, to increase competition and reduce freight costs.

Peter Hetherington, Chief Economist at the Authority said, “It is important to remember why we carry out market studies: the purpose is to see if a market is working well for consumers. Everyone is feeling the pinch from rising shopping bills and, while clearly global inflation is a contributor, we wanted to understand if other forces are coming into play.

“The draft report suggests that there are no immediate competition issues for Jersey’s groceries market. Nonetheless, we are proposing recommendations for policy makers to consider to further support the competitive process and consumers. We look forward to securing feedback from stakeholders to help us further understand the market and how we can drive positive outcomes for Jersey consumers.”

Alongside the Draft Report, the Authority has also published the results of a consumer study conducted by independent research agency, 4Insight. The research explored grocery shopping behaviours, attitudes, potential improvements for consumers and key drivers for change and has given the Authority a 360-degree view of both the demand and supply side of the market.

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NOTES TO EDITORS:

What is a market study?

A market study is a flexible tool to explore whether a market, or feature of a market, is working well for Jersey consumers. It is important to note that a market study is on the structure and behaviour of the market itself, not the action of any specific business or firm.

More information about market studies, including a video quick guide and previous studies, can be found at the Authority's website <https://www.jcra.je/competition-and-regulation/market-studies/>

Groceries Market study – executive summary

The grocery market is important for Jersey consumers. Grocery shopping is a notable expense, accounting for 9% of the average Jersey household's total weekly spend, rising to 15% for lowest income households. Inflation has hit its highest rate in Jersey for 30 years, food prices rose by 14.2% in the year to December 2022, impacting households' budgets.

Against this backdrop, the Jersey Competition Regulatory Authority ("the Authority") commissioned Frontier Economics to support its Market Study of the grocery market in Jersey. The purpose of the study is to see if the market is working for consumers, and it is being carried out against a published term of reference.

Consistent with Authority practice, this draft report has been prepared for Consultation and stakeholder feedback. The consultation process is set out in the accompanying Authority Consultation document published alongside this document.

Key draft findings

Based on our analysis we preliminarily conclude that competition in the Jersey grocery market is working. Grocery retailers are not making excessive profits and consumers shop around. Jersey has a variety of grocery retailers with diverse propositions, and no retailer has more than a 40% share of the market (even accounting for the fact that Sandpiper CI owns multiple brands). Since the last Grocery Market Study in 2014, Jersey's grocery market has developed with new entrants and the emergence of online groceries.

While Jersey has recently experienced significant food inflation, this is a global phenomenon, not specific to Jersey. There is no sign that Jersey grocery inflation is out-of-line with inflation in the UK and Guernsey. Increasing grocery prices are the result of increasing supply chain input costs (principally higher energy and commodity prices), not higher retailer margins. Grocery price inflation in Jersey should slow as global cost inflation slows down in due course.

However, in comparison to the UK, Jersey lacks the lower price grocery retailers – notably the 'Big Four' and the Discounters. A large minority of consumers report being unsatisfied with their grocery shopping experience, particularly the most budget-conscious consumers, and there are clear calls from these consumers for a 'budget' competitor.

The lack of lower price retailers is due to the inherent barriers to entering a small, island market, rather than Jersey-specific issues. Guernsey also lacks these lower price retailers. These barriers include Jersey's small market size; the market is already well served (e.g. most store sites are already occupied); and the logistical challenges of supplying an island market – plus specific restrictions linked to the planning regime in Jersey. As the grocery market continues to develop, it will remain important to engage with retailers (including prospective new entrants) to identify and address any new barriers to entry and expansion that may emerge.

Grocery prices are higher in Jersey than in the UK. The cost of a shopping basket at the same retailer is c.12% lower in the UK than in Jersey. However, this reflects higher costs (primarily freight and labour) and tax differences, rather than competition issues. On one hand this means that, if a lower price retailer were to enter Jersey, its prices would be higher than those in the UK. On the other hand, since competition is working, and retailers are not making excess profits, reducing the additional costs (particularly freight) would likely be reflected in lower prices for consumers.

Draft takeaway for policymakers

The Jersey grocery market is functioning well from a competition perspective, with a range of grocery retailers and no sign of excess profitability. But the lack of lower price retailers and higher operating costs could have a disproportionate effect on some lower-income consumers. The cheapest grocery retailers in the UK can be up to c.33% cheaper than retailers in Jersey. So, continuing to find ways to further support the competitive process and consumers remains a priority.

Options for recommendations

Based on our findings above we have developed three options for recommendations for consultation, which seek to further enhance market outcomes, and ensure that consumers continue to benefit from a dynamic grocery market in Jersey.

1. Increase funding to improve Jersey Consumer Council's price comparison service, to improve awareness of the tool, the accuracy of the data collected and the tool functionality. This will make it easier for consumers to compare prices across grocery retailers and identify the best-value groceries, and would encourage price-based competition for the cheapest groceries.
2. Minimise any additional entry barriers like planning and labelling requirements and improve comparability of Jersey with other relevant grocery markets, to help maintain a competitive and dynamic grocery market. To support this, promote Jersey as a testbed for innovation to the benefit of the island and the sector.
3. Continue to consider the Authority's recommendations in its 2021 Freight Logistics Market Study, which aimed to promote more competition and help improve the price, quality and range of freight logistics services available to Jersey businesses. Reducing freight costs for Jersey retailers will translate to lower grocery prices for consumers.

More information about this Market Study and the full Report can be found on the Authority's website: <https://www.jcra.je/cases/2022/m-007-groceries-market-study/>

About The Jersey Competition Regulatory Authority:

The Authority was established under the Competition Regulatory Authority (Jersey) Law, 2001. It is responsible for administering and enforcing the Competition (Jersey) Law 2005 and also regulates the telecoms and postal sectors and the Ports of Jersey.

The Authority strives to ensure that the markets work well for the benefit of all stakeholders, including Government, business, citizens, and consumers facilitating best value, choice, and access to high quality services.

About Frontier Economics:

Frontier Economics is one of the largest economic consultancies in Europe with offices in Berlin, Brussels, Cologne, Dublin, London, Madrid, and Paris. Frontier uses cutting edge economics to solve complex business and policy problems and works with leading private and public sector organisations. Frontier has extensive experience in the Channel Islands, and has supported the Authority in previous engagements, including the 2022 Alcohol Pricing and Promotions Market Study. Further information about Frontier is available at www.frontier-economics.com.